



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Selected Medicaid Managed Care and  
Fee-for-Service Payments*

*Medical Services Administration*

*Department of Community Health (DCH)*

Report Number:  
39-701-04

Released:  
April 2005

*Medicaid is a program, administered by the DCH Medical Services Administration, that pays for some or all medical bills for certain individuals and families with low incomes and limited resources. The federal government established Medicaid under Title XIX of the Social Security Act. Medical costs of beneficiaries are paid either by Medicaid managed care health plans or on a fee-for-service basis.*

***Audit Objectives:***

1. To assess the effectiveness of DCH's efforts to ensure the propriety of the Medicaid payments for beneficiaries who are entitled to emergency services only.
2. To assess the effectiveness of DCH's efforts to ensure the propriety of Medicaid fee-for-service payments for physician, inpatient hospital, and prescription drug costs for beneficiaries enrolled in managed care.
3. To assess the effectiveness of DCH's efforts to prevent Medicaid managed care and fee-for-service payments for beneficiaries who may have more than one beneficiary identification number or who may be deceased.

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***Audit Conclusions:***

1. DCH was generally effective in ensuring the propriety of Medicaid payments for beneficiaries who were entitled to emergency services only. However, we noted a reportable condition related to emergency services (Finding 1). We estimated that DCH paid approximately \$1.4 million (\$568,000 of State General Fund/general purpose funding) for Medicaid claims that did not have emergency diagnosis codes for beneficiaries entitled to emergency services only. DCH has not recovered associated provider mispayments.
2. DCH was generally effective in ensuring the propriety of Medicaid fee-for-service payments for physician, inpatient hospital, and prescription drug costs for beneficiaries enrolled in

managed care. However, we noted reportable conditions related to fee-for-service payments to physicians and inpatient hospitals and payments to pharmaceutical providers (Findings 2 and 3). Estimated fee-for-service overpayments by DCH were between \$6.4 million and \$8.6 million (between \$2.7 million and \$3.6 million of State General Fund/general purpose funding) for Medicaid services provided that should have been provided to Medicaid beneficiaries by managed care health plans. DCH has not recovered associated provider overpayments.

3. DCH was generally effective in its efforts to prevent Medicaid managed care and fee-for-service payments for beneficiaries who may have more than one beneficiary identification number or who may be deceased. However, we noted a reportable condition related to multiple beneficiary identification numbers and deceased beneficiaries (Finding 4). DCH paid approximately \$578,000 (\$237,000 of State General Fund/general purpose funding) for medical services for beneficiaries having multiple beneficiary identification numbers and beneficiaries who were deceased. DCH has not recovered associated overpayments.

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### ***Noteworthy Accomplishments:***

In May 2003, Michigan's Medicaid was the recipient of the Foundation for Accountability's (FACCT's) Innovative Financing Award. The award was in recognition of Michigan Medicaid's use of the Contractor Performance Bonus Program, which it implemented in 2002 to reward health plans for delivering quality health care by setting specific health goals. Immunization was chosen as the first "improvement opportunity." Plans that met the immunization goal split a bonus pool of \$3.5 million. Every plan in the State improved its immunization rates and met the immunization goal. The result has been improved health care for children in Michigan.

In addition, in December 2004, the National Committee for Quality Assurance (NCQA) identified the nation's highest quality Medicare and Medicaid health plans. The health plans named to the list were the nation's top overall performers on a range of key clinical measures. Of the top 10 Medicaid plans, 3 were Medicaid managed care health plans from Michigan.

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### ***Agency Response:***

Our audit report contains 4 findings and 8 corresponding recommendations. DCH's preliminary response indicated that it generally agreed with 7 of our recommendations and disagreed with 1 recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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